



BULLETIN NO. 234]

[AUGUST, 1915

# Ontario Department of Agriculture

## CO-OPERATION AND MARKETS BRANCH

---

# Organization of Co-Operative Marketing Associations

F. C. HART, B.S.A.

### INTRODUCTION.

During the last few years considerable interest has been aroused in the subject of Co-operative Marketing. The discussions, however, have centred mainly about the benefits of co-operation. Little has been said of the equally important methods by which co-operation is to be carried into effect.

So far in Ontario co-operation has not made as rapid progress as some would desire. The failures have been explained by one cause or another, the most frequent, perhaps being the general lack of knowledge of the co-operative idea, sometimes spoken of as the "disloyalty of the members." A primary cause of many failures, and one which is not fully appreciated when co-operation is under discussion, is the lack of a proper basis of organization, and the lack of proper business safeguards in the detail methods of doing business and of accounting.

This bulletin is designed to fill the evident need of such detailed information as to *organization*. It will be general in character, and will be followed by others dealing with organization for specific purposes, and giving details of business methods and accounting for these special organizations.

To many already engaged in successful co-operative enterprise the observations and directions here outlined may seem elementary, yet it is desired to make the directions simple and easily understood, so that communities just starting a co-operative association may have a clear understanding as to the necessary steps.

### AN ORGANIZATION FOR BUSINESS.

Co-operative marketing is organized selling in place of individual selling. The members are left free to specialize in production, their natural field of endeavor, and unite to hire proficient ability in marketing. A prime necessity, therefore, is that the basis of organization should be such as to adequately carry on the work for which it is intended, should be capable of allowing natural growth of the business, and for this purpose, strict attention should be paid to modern business principles and methods.

Farmers' Clubs and other Educational Organizations have attempted co-operative marketing. While the amount of business is small this can be carried on with fair success. The basis of organization of a Farmers' Club is, however, usually such that growth of business brings numerous difficulties, and a time arrives when a reorganization is essential. The difficulties of reorganizing are as great as, or greater than the original organizing, and it would seem preferable to start on a right basis rather than later go through this tearing down and building up process.

The Club, however, is a valuable organization for the study of co-operation, perhaps for experimental shipments and for the more important work of acquiring the "get together" habit, and so in a position to successfully carry on co-operation; but for actual operations a separate business organization should be constructed.

#### THE FIRST STEP.

While it is necessary to start with the prospects of having at least enough business to carry the overhead charges, a too ambitious beginning should not be attempted. In entering the new field there will be much to learn, unforeseen difficulties will arise, and mistakes, as in any business, will inevitably occur. It is the part of wisdom to overcome these difficulties in a small way and grow with success.

Start with the marketing of one commodity or one class of commodities. It is difficult to find a manager who can successfully market all farm produce, though he may know markets and marketing conditions for a few; there are no legal standards or grades of most farm produce, and the Association must establish its own standards and make these known on the market; a basis of paying members for produce on this quality basis should be worked out; these and many other considerations point to the wisdom of a modest and reasonable start.

A discussion of the proposed undertaking should take place at a Club meeting, or a special meeting called for the purpose. It is well to have some one at the meeting who is familiar with the trade in the article to be marketed. If possible, also a representative from another successful marketing association should be present. Opportunity should be given for free discussion. To be permanently successful, a co-operative organization must be more efficient than the present method, consequently there should be practically unanimity of opinion that such an organization would better the conditions of marketing the product under discussion.

Before the meeting closes, a small committee should be named of men who have the confidence of their neighbors and who are interested in the product to be marketed. This committee should gather all available information, and should draw up a definite set of by-laws, rules and regulations, all of which should be presented at a later meeting. If, at this second meeting it is decided to organize on practically the same basis as submitted by the committee a provisional Board of Directors should be named to complete the organization.

Write to the Co-operation and Markets Branch, Department of Agriculture, Parliament Buildings, Toronto, for assistance and advice in organizing, and submit a copy of the by-laws for suggestions. Get in personal touch with your District Representative of the Department of Agriculture and discuss the situation with him. Obtain from the Provincial Secretary, Parliament Buildings, Toronto, a copy of The Ontario Companies Act, (fifty cents).

#### INCORPORATION

The Association may be either incorporated or unincorporated. An unincorporated organization partakes of the nature of a partnership and each member is personally liable for the acts and liabilities of the association. An incorporated Association has a more definite legal standing, with the resulting advantages, and each member's liability is limited to the amount due on his subscription for shares of the capital stock, or to the amount he is called on to pay according to the by-laws.

If it is desired to be incorporated, write to the Provincial Secretary, Parliament Buildings, Toronto, for application blanks for incorporation. As the forms vary, state whether the proposed organization is for a share company or a non-share corporation. It is not always necessary, but it is sometimes advisable to obtain legal assistance in putting through an incorporation.

#### SHARE COMPANY.

A share company raises capital by selling shares. The application for incorporation must be signed by not less than five persons of the age of twenty-one years. The application must be accompanied by a memorandum of agreement and stock book (blanks of which accompany the application blanks) signed and sealed by the applicants. A copy of the proposed by-laws of the company should be sent to the Provincial Secretary with the signed application.

Before a company can offer shares for sale to the public, a prospectus signed by the Directors or Provisional Directors must be filed with the Provincial Secretary. The following is a suggested form of prospectus. A copy of the prospectus must be delivered to each subscriber at or before the time of his subscription:

## PROSPECTUS

THE.....CO-OPERATIVE ASSOCIATION, LIMITED

Incorporated the..... day of..... 19..... Under The Ontario Companies Act

**AUTHORIZED CAPITAL** - - - \$.....

Divided into

.....Shares of.....Dollars each

Provisional Directors:

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

Head Office:

....., Ontario.

## PROSPECTUS.

(The first paragraph of the Prospectus should give an outline of the objects of the business, the outlook for success, and what is to be attempted at the start. Any information of a general character as related to the trade of the article to be marketed as it affects local conditions might be stated, but nothing exaggerated or any statement that cannot be substantiated should be inserted. Statements as to the subjects mentioned in the following paragraphs are necessary, not of course as they are written, but to agree with the by-laws.)

The original incorporators are (names, occupations, addresses), each of whom has subscribed for one (or as the case may be) share.

A shareholder holding one share is qualified to be a Director. Directors will receive no salary as such, but will be paid bona fide expenses of attending Directors' meetings.

The proposed Directors are (names, occupations, addresses).

The minimum subscription on which the Directors may proceed to allotment is ( ) shares, and the amount payable on application is ( ) per cent. of the subscription, balance payable on the call of the Directors, but no call is to exceed ( ) per cent. of the subscribed stock, and there must be an interval of at least ( ) days between calls. No shares, debentures, or debenture stock have been issued or agreed to be issued except for cash. Nothing has been paid and nothing is payable by the Company as commission for subscribing or agreeing to subscribe or procuring subscriptions for shares of the company or for underwriting.

(NOTE.—This is an important clause. There must be some stated number of shares, other than the shares subscribed for in the application for incorporation, sold before allotment. If this amount is not sold in ninety days, the money collected must be returned to the subscribers; thus, the subscribers have the assurance that the undertaking will not proceed unless the stated number of shares is sold. The money collected on sale of shares cannot be used before allotment, but must be placed in trust at a chartered bank. At least five per cent. of the value of the share must be paid at the time of subscription.)

From the proceeds of the stock now issued, the company proposes to purchase and proposes to pay \$ in cash for same.

The estimated amount of preliminary expenses is \$. Nothing is to be paid to any promoter outside the estimated preliminary expenses.

The Auditor (if any) of the company is (name and address).

None of the Directors has any interest in the promotion of the Company not disclosed in this prospectus, nor has he any interest in any property to be acquired by the Company directly or indirectly as a partner in a firm or otherwise.

A copy of this Prospectus has been filed with the Provincial Secretary.

Dated this day of A.D. 19 .

(NOTE.—The date of the prospectus is not the date of the day of signing it, but the date of its issuance to the public, and as a prospectus should not be issued until after the copy is filed in the office of the Provincial Secretary. The date of the prospectus should be the date of filing or some subsequent date.)

## ALLOTMENT OF SHARES.

After the necessary number of shares are subscribed for and the required amount of cash paid thereon, the directors shall meet and allot the shares to the subscribers, and make return of such allotment to the Provincial Secretary within two months. When subsequent allotments are made, a return thereof must also be made to the Provincial Secretary within two months.

Form of Return for Allotment.....**Limited.**

## RETURN OF ALLOTMENTS OF SHARES PAYABLE IN CASH.

No. of Shares.	Nominal Amount.	Name.	Address.	Description.	Amount Paid.	Date of Allotment.
1	\$100	E. P. Jones	Port Hope	Farmer	\$5 00	January 9, 1915

The above Company hereby certifies that the above return is a correct statement of the facts purported to be stated therein.

WITNESS the Seal of the said Company by the hand of its Secretary this day of 19

(Seal) .....

Secretary.

## CERTIFICATE TO COMMENCE BUSINESS.

If incorporated with share capital and issuing and selling shares to the public, the company must obtain a certificate entitling it to commence business. This certificate is applied for to the Provincial Secretary when the minimum upon which the directors may proceed to allotment has been subscribed and allotted. Evidence of this subscription and allotment is given to the Provincial Secretary by filing a statutory declaration on the prescribed form, obtained from the Provincial Secretary.

## STATUTORY MEETING.

*Of a share company.* Every company issuing or selling shares to the public shall within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of its shareholders. At this meeting the directors shall report as to:—

(a) the total number of shares allotted, distinguishing shares allotted as fully paid or partly paid up otherwise than in cash, and stating in case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;

(b) the total amount of cash received by the Company in respect of such shares so distinguished;

(c) An abstract of the receipts and payments of the Company on capital account to the date of the report, and an account or estimate of the preliminary expenses of the Company;

(d) The names, addresses, and descriptions of the directors, auditors, if any, manager, if any, and secretary of the Company; and

(e) The particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with particulars of the modification or proposed modification.

The directors shall cause a copy of the report, certified as correct by the auditors, if any, to be filed with the Provincial Secretary. A copy of the report signed by at least two Directors, must be sent to each shareholder at least ten days before the meeting.

#### NON-SHARE CORPORATIONS.

Non-share corporations or associations are those without capital or have acquired capital by means other than selling shares. Associations working under the promissory note basis come under this head. A non-share corporation does not have to issue a prospectus.

The signed application blank for incorporation must be accompanied by a Memorandum of Agreement, in triplicate, of which the following is a sample:

MEMORANDUM OF AGREEMENT of the  
made and entered into this  
19

day of

(1) We, the undersigned, do hereby severally covenant and agree each with the other to become incorporated under the provisions of The Ontario Companies Act as a corporation without share capital for the purpose and objects following:

(2) The subscribers to the memorandum of agreement of the corporation shall be the first members and the corporation shall consist of the subscribers and of those who shall, hereafter, be duly elected as members of the corporation in accordance with the by-laws and regulations from time to time in force.

(3) The interest of a member in the corporation shall not be transferable, and shall lapse and cease to exist when such member shall cease to be a member of the corporation, by death, by resignation, or otherwise, in accordance with the by-laws and regulations from time to time in force.

(4) The first directors of the corporation shall be as set out in the Petition herein and shall constitute the Committee of Management of the Corporation.

(5) By-laws and regulations for the management and control of the corporation and governing the election of the Committee of Management from time to time and the conditions of membership of the Corporation shall be established, subject to amendment as therein provided, at a general meeting to be held not more than six months after incorporation at such time and place as the directors may determine, and such by-laws, regulations and amendments shall replace those set out in Form 4 in the schedule to The Ontario Companies Act, save that in any matters covered by such Form 4 and not provided for in the Corporation's by-laws, regulations or amendments,

the provisions of said Form 4 shall apply and be in force, but all such matters, which after the passing of the Corporation's first by-laws and regulations may be left to be governed by such Form 4, may be varied and amended by any by-laws, constitution or regulations.

IN TESTIMONY WHEREOF we have hereunto set our hands and affixed our seals.  
WITNESS:

(Signed and Sealed.)

(Form 4 of The Companies Act covers the provisions usually contained in the by-laws, explained later in this bulletin.)

#### FIRST GENERAL MEETING.

*Of a Non-share Corporation.* Every such corporation shall, within a period of time mentioned in the Memorandum of Agreement from the date of incorporation, hold a meeting of the members, at which the provisional directors shall report:

- (a) The names and addresses of the members;
- (b) The amount of capital subscribed and amount paid thereon;
- (c) All contracts entered into by or on behalf of the company;
- (d) The amount of preliminary expenses; and
- (e) A financial statement of the affairs of the company signed by the auditors, if any.

At this meeting, or at a previous meeting, permanent Directors, Officers, etc., should be appointed, and the by-laws approved.

#### FEES.

1. Fees must accompany all applications and all documents to be filed with the Provincial Secretary. Where the fee does not accompany a document to be filed, such document will be returned to the sender forthwith.

- 2. No cheque will be accepted unless it is marked.
- 3. Cash not registered is at the risk of the sender.
- 4. Post Office Orders, postal notes, cheques, and drafts should be payable to the order of the Provincial Treasurer.

The following schedule of fees, as amended by an Order-in-Council dated December 2nd, 1909, shall be payable for the various services rendered by the Department under the provisions of The Ontario Companies Act.

#### INCORPORATION WITH SHARE CAPITAL.

When the proposed capital of an applicant company is \$40,000 or less, the fee shall be \$100.

When the proposed capital is more than \$40,000, but does not exceed \$100,000 the fee shall be \$100 and \$1.00 for every \$1,000 or fractional part thereof in excess of \$40,000.

When the proposed capital is more than \$100,000, but does not exceed \$1,000,000, the fee shall be \$160 and \$2.50 for every \$10,000 or fractional part thereof in excess of \$100,000.

When the proposed capital is more than \$1,000,000, the fee shall be \$385 for the first \$1,000,000 and \$2.50 for every \$10,000, or fractional part thereof in excess of \$1,000,000.

*Rural telephone companies, and other rural companies coming within the provisions of Part XII of The Ontario Companies Act, where the proposed capital does not exceed \$25,000, \$25.00.*

Where the proposed capital is more than \$25,000 the fee shall be on the same scale as that applying to ordinary share capital companies.

*Rural cemetery companies, rural cheese and butter companies, and other rural companies of a similar nature, where the proposed capital does not exceed \$10,000, \$10.00.*

*Where the capital of a company of the classes in the two next preceding paragraphs referred to exceeds \$10,000, the fee to be levied on the excess shall be at the rate of \$1.00 per thousand, but in no case shall such fee exceed the sum of \$25.00. To take advantage of this special tariff it must be demonstrated to the satisfaction of the Department that the purposes for which the company is being incorporated bring it within the classes referred to.*

#### SUPPLEMENTARY LETTERS PATENT.

Where the capital of a company is increased, the fee shall be according to the foregoing list, but on the increase only. No fee previously paid is taken into account.

Where the capital is not increased the fee shall be \$100.00.

*Where the fee paid for incorporation is \$25.00, or less, the fee for Supplementary Letters Patent shall be \$5.00.*

#### INCORPORATION WITHOUT SHARE CAPITAL.

Charitable Corporations .....	\$5 00
Corporations without Share Capital .....	10 00
Supplementary Letters Patent .....	5 00

#### FILING.

Filing the annual statement of a share company having capital under \$50,000, \$2.00.

Filing the annual statement of a share company having a capital of \$50,000 and less than \$100,000, \$3.00.

Filing the annual statement of a company without share capital, \$1.00.

Filing prospectus, \$2.00.

Filing report for statutory meeting, \$2.00.

#### CERTIFICATE.

Where fee for incorporation is over \$10.00, \$25.00.

Where fee for incorporation is \$10.00 or less, \$5.00.

## Books, Etc.

Every Company or Association must keep:

(a) A copy of the Letters Patent or any Supplementary Letters Patent and of the by-laws duly authenticated.

(b) A Stock Book, with the names alphabetically arranged and addresses and callings of all persons who are or have been shareholders or members and (in the case of share companies) the number of shares held by each shareholder, the amounts paid and remaining unpaid on such shares, and the date and other particulars of all transfers of shares in their order.

(c) A Minute Book, containing minutes of all proceedings and votes of the company and of the Board of Directors, verified by the signature of the President or other presiding officer.

(d) A proper set of books of account.

## ANNUAL RETURN.

An annual return must be sent to the Provincial Secretary on blanks supplied by that Department. Notice of any change of Directors (in a share company) must also be filed with the Provincial Secretary.

## By-Laws.

The following set of by-laws is given as suggestive. Changes may with advantage be made to suit local conditions, but such changes should not be such as to affect the co-operative nature of the undertaking. Only the necessary articles for determining the general organization should be incorporated in the by-laws. The details of management, etc., should be placed in the rules and regulations. No rules and regulations are suggested here, as they will naturally vary with the articles marketed.

If the organization is incorporated, it is unnecessary to insert by-laws regarding the "Name" and "Objects," as they are embodied in the Letters Patent; they are inserted here for the use of unincorporated Associations.

Explanatory notes accompany the By-laws.

## By-Laws of the

## Co-OPERATIVE ASSOCIATION, LIMITED.

Whereas the Association, Limited, deem it expedient that certain by-laws for regulating the affairs of the company should be made, Therefore, be it enacted and it is hereby enacted.

## NAME.

(1) This Association shall be known as the Association, Limited.

Co-operative

NOTE.—The name should be as simple as possible and not too closely resembling that of any known business being carried on. If the name of any business either

incorporated or unincorporated is used, consent to use such name, properly signed, must be sent to the Provincial Secretary with application for incorporation.

The word "Company" means a company having capital divided into shares. A "Corporation" includes a company whether with or without share capital. The word "Co-operative" should be used only if the following provisions are contained in the by-laws.

- 1st. One man, one vote.
- 2nd. No voting by proxy.
- 3rd. Payment of dividend on capital not exceeding the usual rate of interest.
- 4th. Profits divided among members upon the basis of business done by the member through the Association. (See note, By-law 15.)

#### OBJECTS.

(2) The objects of the Association are to produce, grade, buy, and sell the (milk, live stock, fruit, etc.), and (fruit, etc.), products of the members, and to buy, sell and deal in other and products, and to buy, sell and deal in supplies, feeds, packages, machinery, and to erect, buy, sell, own and control buildings and other materials as needed in the business, and to do all things incidental or conducive to the attainment of the aforesaid objects or any of them.

NOTE.—The objects should be stated in as few words as possible, but should adequately cover the business to be attempted. Sometimes these objects and powers are very wide and designed to allow the organization to carry on many kinds of farmers' business, though but a small portion may be attempted at first. Usually, however, it is better policy to build an organization to market but one class of farm produce, such as live stock, vegetables or fruit. In this way the members of the community interested in the different products are grouped. It is desirable that an Association master the details of marketing one commodity rather than a multiplicity of products, especially while the Association is young.

#### MEMBERS.

(3) Any (fruit grower) or (poultry keeper) or (honey producer) or (dairy-man), etc., in District shall be eligible to membership in the Association.

Application for membership must be made to the Secretary of the Association in writing. The Board of Directors shall have the right to refuse any such application by a majority vote for any reason which to them shall seem sufficient.

The signing of an application for membership, unless the application be refused, shall be construed to be an agreement to conform to all the by-laws, rules, regulations and requirements of the Association which may from time to time be adopted by the Association.

The annual membership fee shall be

Members may withdraw from the Association only during the month (or months) of in any year by giving notice in writing to the Secretary and by the payment of all moneys due to the Association at date of resignation.

## OR

Any producer in District shall be eligible to become a member by a two-thirds vote in the affirmative of the members present at a meeting at which application is considered.

Any member may withdraw from the Association during the month (or months) of in any year by giving notice in writing to the Secretary, and by the payment of all moneys due the Association at date of resignation.

## OR

Any person in a Co-operative Association or Co-operative Company engaged in business in the Province of Ontario or any Association of such individuals in good standing shall be eligible to membership in the Association.

Application must be made to the Secretary in writing on the prescribed form. The Board of Directors shall have the right to refuse any such application by a majority vote for any reason which to them shall seem sufficient.

The signing of an application for membership, unless the application be refused, shall be an agreement on the part of the said person, Association, or Company, to conform to all the by-laws, rules, regulations, etc., of the Association which may from time to time be adopted by the Association.

The annual membership fee shall be

**NOTE.**—The choice of members is important. Too many Associations formed at a public meeting contain undesirable members who are a detriment rather than a help. It is often better to organize at a small meeting of invited persons. Some Associations have the application for membership come before a general meeting. This is feasible where the membership is small, otherwise the Board of Directors should decide.

Members should be allowed to withdraw only during the non-shipping season. The main consideration in this connection is that the Association should know approximately the amount of produce upon which it can depend.

An annual membership fee is desirable, though not always practised where capital is available. Where collected it might be placed in the reserve fund.

**FORM OF APPLICATION FOR MEMBERSHIP.**

Place

Date

I, the undersigned, hereby apply for membership in the Co-operative Association, Limited, and agree, if accepted, to abide by all the by-laws, rules, and regulations of the said Association which may from time to time be in force.

This application shall be null and void unless within months from date (number) accepted applications are received by the Association

.....  
Witness.

.....  
Signed.

MEMBERSHIP CERTIFICATE	
No. ....	Date. ....
The ..... Co-operative Association, Ltd.	
..... Ontario.	
Expires..... 19	Not Transferable.
Mr. ....	
.....	
Treasurer.	President.

#### EXPULSION OF MEMBERS.

(4) Any member may be expelled if found guilty of conduct detrimental to the Association, provided that he shall have received in writing one month previously the particulars of the charge against him and that two-thirds of the members present at a special or general meeting vote for his expulsion.

#### DIRECTORS.

(5) At the annual meeting of the Association a Board of Directors shall be elected of whom ..... shall form a quorum at any Board meeting. Any member in good standing shall be eligible to be elected a Director.

If from any cause a vacancy occurs in any office of the Association it shall be filled for the unexpired term by the Board of Directors. Directors' shall be elected for a term of one year but are eligible to be re-elected to office.

Questions arising at any meeting of Directors shall be decided by a majority of votes. In case of an equality of votes, in addition to his original vote, the Chairman shall have a casting vote.

Directors, as such, shall not receive any stated salary for their services, but shall be paid bona fide expenses for attending Directors' meetings.

NOTE.—No matter how small the organization the election of Directors should be by ballot. Open voting when once established is sometimes a difficult habit to break and should never be countenanced under any circumstances. It is essential to have the best men available and open voting at times is influenced by other considerations.

#### DUTIES OF DIRECTORS.

(6) The President and Vice-President shall be chosen by the Directors from among themselves at the first Board meeting after the annual meeting. The Directors shall have general charge of the affairs of the Association and shall meet at the call of the President (at least twelve times during the year) or (once in every month) or (as the business of the Association shall require).

The Board of Directors (may or shall) appoint a committee from among themselves called the Executive Committee, consisting of President, Vice-President and Directors. The Board of Directors may delegate any of their powers to the Executive Committee.

The Board of Directors shall fix the salaries or wages to be paid the manager and employees of the Association; also the Board of Directors shall appoint and arrange the duties of and may remove all employees of the Association.

NOTE.—In some Associations the officers are elected at the annual meeting. In other cases the Directors only are elected and they choose the officers from among themselves. The Secretary may or may not be a member of the Board of Directors. The Board of Directors should actually direct, that is, they should hold meetings and examine the work of the manager frequently enough to be acquainted with the business at all times. If too much is left to the manager the Association finally becomes a one-man concern. The Board of Directors should be large enough to adequately cover the District, but the smaller the number the better. Five, seven or nine Directors are usually enough to carry on the work. In some cases Directors are given the power to appoint not only an Executive Committee but other Committees for directing special departments.

#### MANAGER.

(7) The Board of Directors may (shall) employ a business manager who shall not be a member of the Board of Directors. The manager, subject to the control of the Directors, shall have charge of the business of the Association in detail. He shall have the custody of all the plant, goods, wares, merchandise and buildings of the Association and be responsible therefor. He shall keep a full set of commercial books which shall be open to inspection at all times to Directors or any officers of the Association. He shall take stock of all assets of the Association in conjunction with the Secretary and shall exhibit a complete inventory to the Directors at least once every year and oftener if required by the Directors to do so. He shall hand over to the Treasurer of the Association all moneys received by him on behalf of the Association. He shall permit free access to all books, stock, stocksheets, and all the assets of the Association to any Auditor appointed by the members or by the Board of Directors.

NOTE.—In all cases the manager should not be a member of the Board of Directors for the reason that he should not have a vote on his own actions. As a matter of fact his office is designed to take the place of one or more middlemen, and he should be but an agent of the farmers' organization and under its control. It is more important that the manager have business capacity rather than a knowledge of production. He should know something of the markets and marketing conditions of the commodity he is selling. It is equally important that the manager should know how to keep proper accounts, and exceptional care should be taken to see that his books are in proper shape at all times. In some cases the offices of Secretary and Treasurer may be filled by the one person. The Manager or Secretary from the start should be compensated for the time he puts on the work. This is best accomplished by paying him on a commission basis. Later on when all his time is engaged by the Association he can be paid part salary and part commission. Where the turnover justifies it, Associations find good results by paying their manager and other employees a straight salary as in other commercial concerns.

## DUTIES OF THE PRESIDENT.

(8) The President shall, if present, preside at all meetings of the Association. He shall call meetings of the Board of Directors and shareholders, when necessary, and shall advise with and render such assistance to the manager as may be in his power. He shall do all things necessary to the proper conduct of his office.

In his absence the Vice-President shall have and exercise all the rights and powers of the President.

NOTE.—It is important to have in the office of President a trustworthy person who is willing to sacrifice some time and convenience for the good of the community; some one who will feel it his duty to keep in close personal touch with the activities of the Association and with the manager at all times.

## DUTIES OF THE SECRETARY AND TREASURER.

(9) The Secretary and Treasurer shall hold office until such time as he, or they, may resign or be discharged by the Board of Directors. The Secretary shall keep a record of the proceedings at all meetings of the Association and of the Board of Directors and Committees. He shall have the custody of all books, papers, records, etc., belonging to the Association, which he shall deliver when authorized to do so by a resolution of the Board to such person or persons as are named in the resolution.

The Treasurer shall have and keep custody of all moneys and securities of the Association. He shall deposit all such moneys immediately upon receipt thereof to the credit of the Association in the bank of at or such other chartered bank as the Directors may from time to time designate. He shall upon the direction of the Board of Directors (or Executive Committee) pay all accounts of the Association by check, countersigned by the President or Vice-President. No check shall be signed by both Treasurer and President or Vice-President in blank.

All officers or employees of the Association having charge of money or property belonging to the Association shall, before entering into the employment, provide such security as the Directors deem adequate and in such form as they may approve.

NOTE.—All accounts except petty cash accounts should be paid by cheque so that there may be no doubt at any time as to accounts. If the Treasurer or President signs cheques in blank, contrary to the provision of the by-laws, he becomes personally responsible therefor.

Bonds issued by a surety company are preferable to personal bonds. The names of reliable companies may be obtained from any good business man or insurance agent. Bonds of this nature cost about five dollars per thousand and this cost should be paid by the Association in order that the bonds may not lapse. Bonding the manager or other officers handling funds should be put into practice when the organization starts business; this will obviate the difficulty of asking for them at some inopportune time.

## MEETINGS.

(10) The annual meeting shall be held at at such time during the month of as the Directors may decide to receive the reports of Directors for the past year, to elect Directors and Auditors for the ensuing year and for all other general purposes relating to the management of the affairs of the Association.

A general meeting of the members may be called at any time by the Directors whenever they deem the same necessary or advisable for any purpose.

The President shall call a special meeting of the members whenever required to do so in writing by not less than  $\frac{1}{5}$  of the members.

Notice of the time and place of holding an annual, special or other meeting of the members shall be given by written notice to each member at his last known address at least                    days previous to the time of holding such meeting.

Special general meetings shall not transact any business other than that appearing in the written requisition and notice calling the meeting.

At the annual, general or special meetings of the Association one-fifth of the members shall be a quorum.

NOTE.—The annual meeting should be held at the place where the head office of the Association is situated. Special general meetings should not transact any business other than that appearing in the written requisition in order to avoid snap verdicts on important methods or policies of the Association.

## VOTING.

(11) At all meetings of the Association each member shall have one vote only, which shall be deposited by him, or her, in person. Should the decision of the Chairman on any question voted upon be challenged by five members present the meeting may decide the question by ballot.

On

At general meetings of the Association each shareholder shall have one vote only, irrespective of the number of shares he holds. Votes must be deposited by him, or her, in person.

NOTE.—One of the fundamental differences between the industrial, mercantile or commercial (regular Joint Stock) Company and a Co-operative Company is that the former is for the purpose of making profits on investment and the latter is for the purpose of bettering the conditions of trade. One man, one vote, insures the democratic nature of the Association and prevents the business being run in the interest of a few, rather than in the interest of all the members. Where the interests of the few and the many conflict, the majority of members, not the majority of money invested, should rule.

**SEAL.**

(12) The Association shall have a corporate seal of such design as the Board of Directors may determine, which seal shall, whenever used, be authenticated by the signature of the President and Secretary or the Vice-President and Secretary.

NOTE.—A seal of some description is necessary, even if it is only a rubber stamp. A regular stamping seal may be obtained at small cost.

## CAPITAL.

(13) The capital of the Association shall be divided into shares of \$ each, carrying not more than per cent. interest. Calls upon the subscribed stock shall be made from time to time as the Board of Directors may determine but no call shall exceed (25 per cent.) of the subscribed stock, and there shall be an interval of at least (30) days between calls.

The Board of Directors shall have power to summarily forfeit shares and money paid thereon upon which any calls shall have remained unpaid for six months after it shall be due and payable and such forfeited stock shall thereupon become the property of the Association and may be disposed of in such manner as the Association in general meeting see fit.

Receipts for payment of calls shall be issued from time to time as such payments are made but stock certificates shall only be issued when shares are fully paid up. Both receipt and certificate shall be authenticated by the signatures of the President and Secretary and sealed with the Association's seal.

Shareholders may with the consent of the Board of Directors, but not otherwise, transfer their unpaid shares, and such transfer shall be recorded in a book provided for the purpose and signed by shareholder and transferee and duly witnessed, but no person shall be allowed to hold or own unpaid stock in the Association without the consent of the Board of Directors.

## OR

Each member at the time of uniting with the Association shall give a promissory note, payable on demand, to the Association for the sum of \$ and an additional for each and every owned by the member at the time of uniting with the Association, but in no case shall the promissory note be for a less sum than \$

At the time of uniting with the Association and at the end of each three years after the incorporation of the Association and not less than ten days prior to the date of next annual meeting, each member shall file with the Secretary a true statement of the number of owned by the members at the time.

Within two weeks after the annual meeting at the end of each third year the Directors shall require each member to give a promissory note, payable on demand, to the Association for the sum of \$ and an additional for each and every owned by the member at the time, but in no case shall the promissory note be for a less sum than \$. In consideration for the same the Secretary shall deliver over to the member the note previously given by the member duly cancelled and sealed with the seal of the Association.

The notes of the members shall be the property of the Association and may be used by the Directors as collateral security with which to secure needed capital for the transaction of the business of the Association.

Whenever the notes of any of the members are deposited as security for a debt, all the members shall individually share the liability in proportion to the value of the note given to the Association by each member.

## OR

Each member at the time of uniting with the Association shall give to the Association a promissory note, payable on demand, to the Association for the sum of \$ , and said notes shall be the property of the Association and may be used by the Board of Directors as collateral security with which to acquire needed cash for the transaction of the business of the Association.

Any member may, with the consent of the Board of Directors, but not otherwise, give all or part of the amount of his note in cash; but in no case shall the total amount of note and cash be a less sum than \$ .

At the end of each third-year period, after incorporation each member shall give to the Association a promissory note in amount equal to his previous capital note. In consideration for the same the Association shall deliver to the member the note previously given by the member duly cancelled and sealed with the seal of the Association.

Whenever the notes of any of the members are deposited as security for a debt, all the members shall individually share the liability in proportion to the value of the note given to the Association by each member.

Interest at a rate not exceeding per cent. shall be paid on all cash capital deposited by the members with the Association.

**NOTE.**—It is unwise to engage in any business without sufficient money to successfully carry it on. Every consideration demands that the Association be properly financed. Two outstanding reasons demand capital:

*First*, the member's capital to a certain extent insures his loyalty. Actions of a member detrimental to the business jeopardizes his capital and the member is made to realize that the success of the whole concern is of more importance than occasional losses of individual members.

*Second*, the Association should be in a position to pay at least part cash to the members when goods are delivered. The middlemen, whose place was taken by the Association, provided themselves with capital for this purpose. In any event the goods must pay for the capitalization while on the road to market. Where the members have to wait an indefinite period for complete returns of sales, sometimes delayed through unavoidable causes, their private business is seriously interfered with, and dissatisfaction results. With capital this difficulty is overcome.

In some Associations capital supplied by each member is varied in accordance with the amount of business the member is likely to do with the Association. As for example, varying with the size of orchard or number of trees in a Fruit Association. In most Associations, however, it is impossible to previously determine

members' business even approximately, and all members are required to supply capital in equal proportions. Capital may be raised in two ways. First, by using the cash of the members, and second, by using their credit. The most common method is that of selling shares. Where this method is used, at least five per cent. of the face value of the shares must be paid in cash at the time the share is bought. Future calls for payment on shares may be made from time to time, or the profits that should naturally go to the members are sometimes applied toward paying for their shares. The shares do not become the absolute property of the members until fully paid up. Where cash is taken in payment for shares, the interest (cash dividend) should not exceed the usual rate of interest. The unpaid portion of the shares may be used as collateral for raising capital. Where an Association has its

capital tied up in buildings or other permanent outfit the share method is perhaps preferable.

Non-share corporations obtain capital by using the joint and several notes of the members, or their individual notes. These are personal notes payable on demand to the Association and constitute the credit of the members used for acquiring capital. As long as the Association is solvent the notes are not cashed. Where, however, the business has been unsuccessful the liabilities of the Association must be met by these capital notes. In the event of the liabilities having to be met by the notes of any of the members which have been placed as security, all the members must share the liabilities irrespective of which individual notes have been so placed.

By this method also interest is paid on capital only when it is in actual use.

A form of note is suggested:

THE	CO-OPERATIVE ASSOCIATION, LIMITED.	
	Capital Note.	
\$100.00		Ontario, Canada.
		Jan. 4th, 1915.

On demand I promise to pay The  
Co-operative Association, Ltd., the sum of One Hundred Dollars, to be  
used in accordance with the by-laws of the said Association.

Signed .....

.....

#### RESERVE FUND.

(14) Before any distribution of any surplus funds to be distributed to the shareholders (members) shall be made, there shall be set aside out of such funds of the Association such sum, or sums, not less than ten per cent. in any one year as the Directors may from time to time think proper as a reserve fund, for meeting contingencies, for maintaining or repairing any property of the Association, or for any other such purpose as the Directors shall think conducive to the interests of the Association, but at no time shall the total amount of reserve fund exceed the amount of capital at the disposal of the Association.

NOTE.—Every sound business sets aside a portion of its surplus funds for meeting unexpected difficulties and for repairing its property. Without such a reserve fund a small financial difficulty will often wreck an Association. Usually the reserve fund is limited by the by-laws so that an excessive amount of the profits cannot be kept from the members. Sometimes a Members' Reserve Account is kept so that upon withdrawal, his share of the reserve fund, less a certain percentage for depreciation, may be returned to him. The Association, however, should not bind itself to return such reserve, if doing so would financially injure the Association. Most of the Associations ....., provisions whatever for returning any portion of the reserve fund to the ....., and this latter is the safer plan.

## DISTRIBUTION.

(15) All surplus moneys in possession of the Association to be divided amongst its members shall be proportioned to each member on the basis of the value of the business done by the member with the Association.

NOTE.—After all legitimate expenses of carrying on the business have been paid, including interest on capital (which should be limited by the by-laws), the net surplus funds are distributed to the members who created such surplus and in the same proportion in which they contributed towards it. Where but one commodity is marketed, this is accomplished by dividing the surplus in proportion to the amount of business done by each member. Where a number of commodities is marketed, however, the profits in one line may be greater than the profits in another. The profits also vary at different seasons of the year. In such cases the returns are pooled for each commodity or, for certain times, that is, for each shipment, for each day, each week, or each season. In other cases, as for example, in cattle, each member's shipment is sold separately and returns made accordingly. Distribution of surplus depends on the nature of the business, but in all cases the surplus should be returned on a just basis.

## LIQUIDATED DAMAGES.

(16) All farm produce handled by the Association and grown for sale through the Association by the members, and which is acceptable to the manager, shall be delivered to the Association as directed by the Board of Directors, and without the written consent of the manager members shall not sell through the Association produce produced by non-members.

Because of the difficulty of determining losses occasioned by members not adhering to the above rule, such losses shall be estimated by the Board of Directors, and shall be payable to the Association by offending members as liquidated damages.

NOTE.—This clause is sometimes inserted in the by-laws, sometimes in the regulations, and sometimes as a special agreement, preferably the last. It is important, however, that the Association should have some guarantee that it will have the necessary amount of goods to carry on the business and that it should know approximately the amount it will have for sale. Haphazard methods in the long run are seldom profitable. The loss entailed by the defection of members should be borne by the offending members and not by the loyal ones. If it is his intention to go into the business of marketing the member should be willing to say so and back it up with his guarantee. If he does not intend to stay with the Association it would be better to know it before he becomes a member rather than after.

As it is difficult to determine the exact amount of loss incurred by members not adhering to the rules and by-laws, the regulations should provide a specific agreement as to what those losses shall be, as for example, so much per barrel of apples, dozens of eggs, etc.

## FORM OF AGREEMENT RE LIQUIDATED DAMAGES.

The	Co-operative Association, Limited.
Place	Date
I, the undersigned, as a member of the	Co-operative
Association, Limited, hereby agree to deliver to the said Association all the	
and products grown (produced) by me for sale,	
and acceptable to the Association; and I further agree to pay to the said Association	
as liquidated damages (and not as a penalty) cents for	
each of not so delivered without the written	
consent of the Manager (or Secretary).	

Witness .....

Signed .....

## AUDITORS.

(17) The accounts of the Association shall be audited by an auditor or auditors who shall be appointed at the annual meeting in each year. No employee or Director of the Association shall act as its auditor.

Vacancies in the position of auditor may be filled by the Board of Directors.

The auditor shall present a statement of accounts in such form and for such purpose as the Board of Directors may decide. He shall also prepare the annual returns of the Association and shall duly fulfil all the obligations pertaining to the office.

NOTE: A proper audit of the accounts of the Association is extremely important and this importance is not sufficiently recognized by Co-operative Associations generally. Large business concerns carry on a continual audit at all times. It is recognized that too large a proportion of the failures of co-operative associations has been due to the fact that proper accounting has not been practised. When an Association starts, Directors should cause an audit to be made each month for the first few months. Usually one or two of the members are appointed as auditors and too often these members have no knowledge of how to properly audit books and slip-shod methods of managers are allowed to pass. It is money well invested to acquire the services of an expert accountant to make an audit at least once every year. The annual audit should reveal the entire financial standing of the Association and should be clear enough to give every member a complete idea of the business transacted. Where a number of Co-operative Associations are carrying on business in the same district they might club together to hire the services of an expert accountant and the payment of the services divided in proportion to the time spent with each Association.

## CHANGING BY-LAWS.

(18) These by-laws may be amended at any regular or special meeting by a two-thirds vote of the members present, in the affirmative.

Notice of such amendments must be given each member by letter at least days previous to the meeting.

NOTE.—The by-laws should contain no more than enough to determine the general basis of organization. The details of running the business should be embodied in the rules and regulations which may be changed from time to time as occasion demands.

### SUMMARY OF PROCEEDING.

1. Discuss the question with your District Representative of the Department of Agriculture, and with your neighbors personally, or in Club or other meetings.
2. Write to the Co-operation and Markets Branch, Department of Agriculture, Parliament Buildings, Toronto, and explain the situation as fully as possible.
3. Hold a small meeting of interested persons, or of a committee appointed at a Club or other meeting.
4. Have this committee gather all available information relating to the trade in the article to be marketed. Acquire local facts and figures to determine the advisability of such an organization. Get from the Co-operation and Markets Branch a list of other organizations in the Province in the proposed trade, and write them for information.
5. Have the committee frame and complete a basis of organization.

### FOR CORPORATIONS WITHOUT SHARE CAPITAL.

6. Write to the Provincial Secretary asking for forms for incorporation without share capital.
7. Return the forms properly filled out and with the necessary fees.
8. At the same time return three copies of a Memorandum of Agreement, each signed and sealed by the applicants.
9. As soon as the requirements of the Provincial Secretary's Department have been complied with, and notice to that effect has been received, the business may be started; but before starting the directors should adopt by-laws, rules and regulations, and obtain the minimum number of members mentioned in the application for membership.
10. Within the time specified in the Memorandum of Agreement hold a meeting of the members, make a full report of all transactions, have by-laws, rules and regulations approved by the members, and appoint permanent officers.
11. In January each year make the necessary annual return to the Provincial Secretary.

### FOR COMPANIES WITH SHARE CAPITAL.

6. Write to the Provincial Secretary asking for forms for incorporation of a share company.
7. Return the forms properly filled out and with fees, and state, if so, that the proposed company is a rural co-operative company.
8. File a Prospectus with the Provincial Secretary with fee.
9. On notice from the Provincial Secretary that prospectus has been filed, issue the prospectus and sell (within 90 days) at least the minimum number of shares.

10. Allot the shares to the subscribers.
11. Make the necessary declaration to the Provincial Secretary on the form supplied and obtain certificate to commence business.
12. Appoint permanent officers, etc., and adopt by-laws, rules, and regulations.
13. From one to three months after receiving certificate hold the statutory meeting. File report of this meeting with the Provincial Secretary.
14. In January each year make the necessary annual return to the Provincial Secretary.
15. Notify the Provincial Secretary of any changes in the Directorate.

**FOR ALL COMPANIES.**

16. Keep records of the minutes of all preliminary and other meetings.
17. Have a seal made. Bond the Manager and Treasurer, and see that other details recommended receive attention.